



Ontario
Energy
Board | Commission
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BY WEB POSTING

August 31, 2020

To: All Licensed Electricity Distributors

**Re: Incentive Rate Setting: 2019 Benchmarking Update for Determination of 2020
Stretch Factor Rankings - Board File No.: EB-2010-0379**

Each year, the Ontario Energy Board (OEB) benchmarks electricity distributors' total cost performance. The rankings from the benchmarking results for the current year's 59 electricity distributors are used to assign stretch factors that can reduce the rates for those distributors whose rates will be adjusted using the annual Incentive Rate Mechanism (IRM) in the 2021 rate setting process. The stretch factor assignments are based on the results of a benchmarking study designed to measure individual distributors' cost efficiency.

The incentive rate setting rewards distributors commensurate with their total cost performance. Each distributor is assigned to one of five groups, or cohorts, with the best cost performers in Cohort I and the poorest cost performers in Cohort V. The distributors in Cohort I as the best performers get rewarded with no rate reduction adjustment. The distributors in the lower cohorts get rate reduction adjustments ranging from 0.15% in Cohort II to 0.60% in Cohort V. The stretch factors incent distributors to perform better, and as such, promote, recognize and reward distributors for cost efficiency improvements, which in turn lead to lower distribution costs and rates.

The OEB commissioned Pacific Economics Group Research (PEG) to perform the benchmarking analysis according to an OEB-approved methodology. The most recent update based on 2019 data has been received and is posted on the Performance Assessment page of the OEB's website.

The OEB notes the following regarding the overall industry's cost performance:

- The electricity distributor sector has shown consistent cost performance improvements. The average level of cost performance in 2019 for the 59 distributors was 7.8% lower than forecast cost and this builds upon the cost performance improvement in previous years (i.e., costs were lower than forecast cost by 6.2% in 2018, 4.9% in 2017 and 3.4% in 2016).

- Of the 7 distributors whose rankings have changed from 2019 to 2020, six have moved to a lower stretch factor ranking based on improved cost performance, while one moved to a higher stretch factor.
- The overall trend is indicative of improved cost performance on average. The OEB will continue to monitor to determine whether these improvements are sustained.

The table below shows the seven distributors whose 2020 stretch factor assignments have changed from the previous year's update and the stretch factors for two new distributors. The amounts shown in brackets represent the downward percentage adjustment to reduce the rates during the 2021 IRM rate setting process. Two new distributors (Elexicon and Synergy North) have been added to the benchmarking and six distributors (Guelph, Kenora, Thunder Bay, Veridian, West Coast Huron, and Whitby) have been removed from the benchmarking due to amalgamations and acquisitions that occurred in 2019. The stretch factor assignments of all other distributors remain the same as assigned in the previous year's update results (i.e., 2019 stretch factor ranking).

Company Name	2019 Stretch factor ranking	2020 Stretch factor ranking
Atikokan Hydro Inc.	Cohort IV (0.45)	Cohort III (0.30)
Elexicon Energy Inc. (new in 2019)	NA	Cohort III (0.30)
Festival Hydro Inc.	Cohort IV (0.45)	Cohort III (0.30)
Grimsby Power Incorporated	Cohort II (0.15)	Cohort I (0.00)
Newmarket-Tay Power Distribution Ltd.	Cohort II (0.15)	Cohort III (0.30)
PUC Distribution Inc.	Cohort IV (0.45)	Cohort III (0.30)
Sioux Lookout Hydro Inc.	Cohort III (0.30)	Cohort II (0.15)
Synergy North Corporation (new in 2019)	NA	Cohort III (0.30)
Wellington North Power Inc.	Cohort IV (0.45)	Cohort III (0.30)

Any inquiries regarding the above matter should be directed to the OEB's Industry Relations hotline at 416-440-7604 or by e-mail to IndustryRelations@oeb.ca. The OEB's toll free number is 1-888-632-6273.

Yours truly,

Original Signed By

Christine E. Long,
Registrar and Board Secretary